

SANTA BARBARA COUNTY  
TREASURER'S INVESTMENT POOL

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

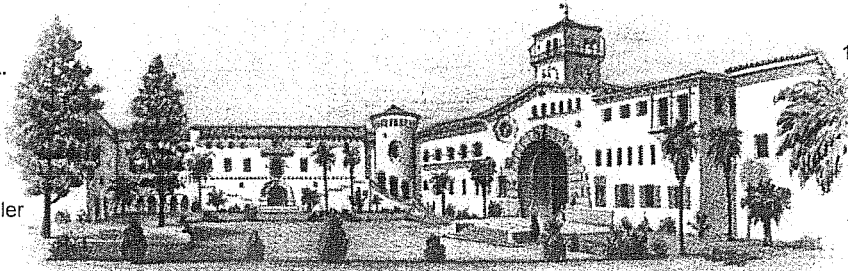
SANTA BARBARA COUNTY TREASURER'S INVESTMENT POOL  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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# County of Santa Barbara

Robert W. Geis, C.P.A.  
Auditor-Controller

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## Office of the Auditor-Controller

### INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors  
County of Santa Barbara, California

#### **Report on the Financial Statements**

Pursuant to Government Code §26920(b) and §26922, we have audited the accompanying basic financial statements of the Santa Barbara County Treasurer's Investment Pool (the "Pool") of the County of Santa Barbara, California, as of and for the fiscal year ended June 30, 2013.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pool's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pool, as of June 30, 2013, and the respective changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Pool and do not purport to, and do not, present fairly the financial position of the County of Santa Barbara, California, as of June 30, 2013, and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Management's Discussion and Analysis***

The Pool has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

As required by various statutes within the California Government Code, county auditor-controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, impair Government Auditing Standards' independence standards. We believe that the following safeguards and division of responsibility exist to retain the audit organization independence. The Santa Barbara County Auditor-Controller is directly elected by the voters of the jurisdiction being audited. Also, the audit staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013 on our consideration of the Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Heather Fletcher". The signature is written in a cursive, flowing style.

Heather Fletcher, CPA  
Audit Manager  
Santa Barbara, California  
August 8, 2013

SANTA BARBARA COUNTY TREASURER'S INVESTMENT POOL  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013

**ASSETS**

Cash		\$ 131,649,870
Investments:		
California Asset Management Program (CAMP)		26,000,000
Local Agency Investment Fund (LAIF)		50,000,000
Government Agency Bonds		315,296,300
Government Agency Discount Notes		119,964,300
Government Agency Bonds - Callable		<u>311,996,739</u>
Total Investments		<u>823,257,339</u>
Interest Receivable		1,067,992
<b>NET POSITION HELD IN TRUST</b>		<u><u>\$ 955,975,201</u></u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA COUNTY TREASURER'S INVESTMENT POOL  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Additions**

Contributions by Pool Participants	\$ 2,175,994,722
Investment Income:	
Investment Earnings	4,788,390
Net Decrease in Fair Value of Investments	(5,390,178)
Administrative Expenses	<u>(1,391,040)</u>
Net Investment Income	(1,992,828)
Total Additions	<u>2,174,001,894</u>

**Deductions**

Distributions to Pool Participants	<u>2,090,847,612</u>
Net Increase in Net Position	83,154,282
Net Position Held in Trust, Beginning of Year	872,820,919
Net Position Held in Trust, End of Year	<u><u>\$ 955,975,201</u></u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA COUNTY TREASURER'S INVESTMENT POOL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The reporting Entity

The Santa Barbara County Treasurer's Investment Pool (the "Pool") is a part of the County of Santa Barbara (the "County") and is responsible for approximately \$956 million in assets as of June 30, 2013. The County Board of Supervisors delegates the investment authority to the County Treasurer's Office in accordance with Section 53607 of the California Government Code. The County Treasurer is an elective office, which is responsible for tax collection, banking, investment and accountability of public funds.

The Pool is managed by the County Treasurer on behalf of the Pool participants, which include the County, local school districts and community colleges, and other districts and agencies within the County. Involuntary participants in the Pool, including the County, comprise 97.8% of the Pool's assets at June 30, 2013. The objectives of the Pool are to primarily safeguard investment principal by mitigating exposure to risk factors, secondarily maintain sufficient liquidity to meet cash flow needs, and lastly to attain a return on the funds. The Pool is not registered with the Securities and Exchange Commission ("SEC") as an investment company nor is it a SEC Rule 2a7-like pool. The Pool does not have any legally binding guarantees of share values. The Pool is not rated.

Pursuant to Sections 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee (the "TOC"), which monitors and reviews the Investment Policy. The TOC consists of representatives appointed from pool participant agencies as well as members of the public who have expertise in, or an academic background in, public finance. A financial audit is required to be conducted annually on a fiscal year basis, which includes tests of compliance with laws and regulations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of related cash flows. Pool participants' cash balances and withdrawals are based on cost while investments are reported at fair value.

Trades Payable

Trades payable represents purchase of investments by the Treasurer where payment has not been made as of the fiscal year end. The Pool had no trades payable at June 30, 2013.

Trades Receivable

Trades receivable represents pending sale of investments by the Treasurer that have not settled at fiscal year end. The Pool had no trades receivable at June 30, 2013.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



## 2. DEPOSITS

At June 30, 2013, the carrying amount of the Pool's deposits was \$131,645,870 and the corresponding bank balance was \$126,348,793. The difference of \$5,297,077 was principally due to deposits in transit.

### Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Pool will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that of the County's total bank balance, \$250,000 is insured by the Federal Depository Insurance Corporation. The remaining \$126,098,793 on deposit is collateralized with securities held by the pledging financial institution's agent. Per Government Code section 53652, the depository is required to maintain a market value of at least 110% of the pledged collateral.

## 3. INVESTMENTS

Pursuant to Section 53646 of the Government Code the County Treasurer prepares an *Investment Policy Statement* annually, presents it to the TOC for review and to the Board of Supervisors for approval. After approval, the policy is forwarded to the California Debt and Investment Advisory Commission.

The Investment Policy Statement provides the basis for the management of a prudent, conservative investment program. Public funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the Treasurer's Investment Policy is more restrictive than state law. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; the State of California Local Agency Investment Fund (LAIF); and the investment pools managed by a Joint Powers Authority. As of June 30, 2013, all investments are in compliance with State law and with the investment policy.

Investments are stated at fair value. Fair value is established quarterly based on quoted market prices received from the securities custodian. Fair value of investments held fluctuates with interest rates. The fair value of participants' position in the Pool is the same as the value of the Pool shares. The value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal.

The Pool participates in LAIF and the California Asset Management Program (CAMP). Investments in the LAIF and CAMP are governed by State statutes and overseen by a five member Local Investment Advisory Board and a 7 member Board of Trustees, respectively.

### Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments.

The Treasurer's Investment Policy sets specific parameters by type of investment to be met at the time of purchase. Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services at a minimum of F1 by Fitch, P-1 by Moody's and A-1 by Standard & Poor's (S&P). Corporate notes, with a maturity greater than three years, shall be rated at a minimum of AA by at least two of the three major rating services. Corporate notes, with a maturity of three years or less, shall be rated at a minimum of AA- by at least two of the three major ratings services. Corporate Temporary Liquidity Guarantee Program (TLGP) notes shall be rated AAA by one of three major ratings services.

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at June 30, 2013:

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<b>Treasurer's Pooled Investments:</b>				
CAMP	Not Rated	AAAm	Not Rated	3.16%
LAIF	Not Rated	Not Rated	Not Rated	6.07%
Government Agency Bonds and Notes	Aaa	AA+	AAA	63.30%
Government Agency Bonds and Notes	Aaa	AA+	Not Rated	27.47%
<b>Total Treasurer's Pooled Investments</b>				<b>100.00%</b>

Instruments in any one issuer that represent 5% or more of the County's investments as of June 30, 2013 are as follows: (excluding external investment pools and debt explicitly guaranteed by the U.S. government)

<u>Issuer</u>	<u>Issuer Type</u>	<u>Fair Value Holdings</u>	<u>Percentage Holdings</u>
<b>Treasurer's Pooled Investments:</b>			
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 149,743,027	18.19%
Federal Home Loan Bank	Government Sponsored	\$ 226,207,592	27.47%
Federal Farm Credit Bank	Government Sponsored	\$ 204,319,650	24.82%
Federal National Mortgage Association	Government Sponsored	\$ 166,987,070	20.29%
		<u>\$ 747,257,339</u>	<u>90.77%</u>

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that the Pool will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the Pool are deposited in trust for safekeeping with a custodial bank different from the County's primary bank. Securities are not held in broker accounts.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pool mitigates this risk by making longer-term investments only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The maturity of investments purchased is governed by a demand for funds analysis of prior periods' revenues and expenditures, and is also determined by current cash flow demands assessed on an ongoing basis. The Treasurer's Investment Policy also dictates that the final maturity date of any individual security shall not exceed five years and that long term investments (greater than one year), in the aggregate, shall not exceed 75% of the portfolio. At June 30, 2013, the weighted average days to maturity for the Pool was 677 days.

A summary of interest rate, maturity ranges, and weighted average days to maturity for the Treasurer's investments is as follows:

<u>Treasurer's Pooled Investments:</u>	<u>Principal</u>	<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>	<u>Weighted Average Days to Maturity</u>
CAMP	\$ 26,000,000	\$ 26,000,000	0.08%	On Demand	On Demand
LAIF	\$ 50,000,000	\$ 50,000,000	0.25%	On Demand	On Demand
Government Agency Bonds	\$ 315,000,000	\$ 315,296,300	.10%-2.25%	7/13-7/16	348
Government Agency Discount Notes*	\$ 120,000,000	\$ 119,964,300	Discount	8/13-5/14	127
Government Agency Bonds - Callable	\$ 316,305,000	\$ 311,996,739	.35%-1.25%	11/14-6/18	1376
	<u>\$ 827,305,000</u>	<u>\$ 823,257,339</u>			

\* Government Agency Discount Notes are purchased at a discount. The difference between maturity value and principal is apportioned to the investment pool as earnings.

The weighted average days to maturity of the underlying securities held in the LAIF and CAMP pools presented above are 278 and 37, respectively. For purposes of the weighted average maturity calculation, the County assumes that all of its investments will be held to maturity.

The fair value of investments generally changes with the fluctuations of interest rates. In a rising interest rate market, the fair value of investments could decline below original cost. Conversely, when interest rates decline, the fair value of investments increases. The Treasurer believes liquidity in the portfolio is sufficient to meet cash flow needs for the next six months and will preclude the Treasurer from having to sell investments below amortized cost.

At June 30, 2013, \$24,147,290 or 2.93% of the Treasurer's Pooled Investments was held in U.S. agency step-up notes. These securities grant the issuer the option to call the note on a certain specified date(s). On a certain date, or dates, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note.

#### 4. INTEREST APPORTIONMENT

Earnings realized on investments based on amortized cost are distributed to Pool participants and are calculated using the accrual basis of accounting. Section 27013 of the California Government Code authorizes the Treasurer's Office to deduct administrative fees related to deposits and investments. The net realized earnings on investments are apportioned to Pool participants quarterly based upon each participant's average daily cash balance. Unrealized gains and losses are also apportioned quarterly to participants based upon the participant's ending cash balance.

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest.

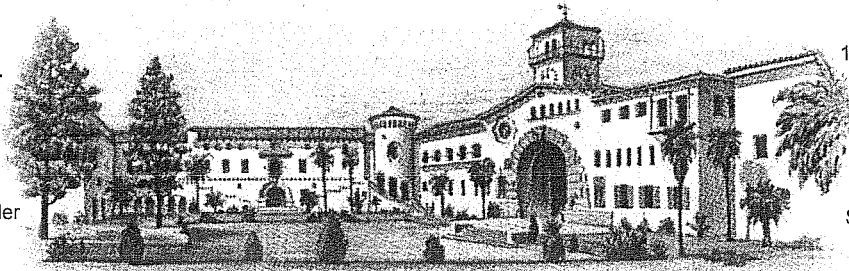
#### 5. INTEREST RECEIVABLE

Receivables consist of accrued interest, amortized premiums and discounts, and purchased interest.

# County of Santa Barbara

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## Office of the Auditor-Controller

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Board of Supervisors  
County of Santa Barbara, California

Pursuant to Government Code §26920(b) and §26922, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Santa Barbara County Treasurer's Investment Pool (the "Pool") of the County of Santa Barbara, California, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated August 8, 2013.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting

that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope and testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

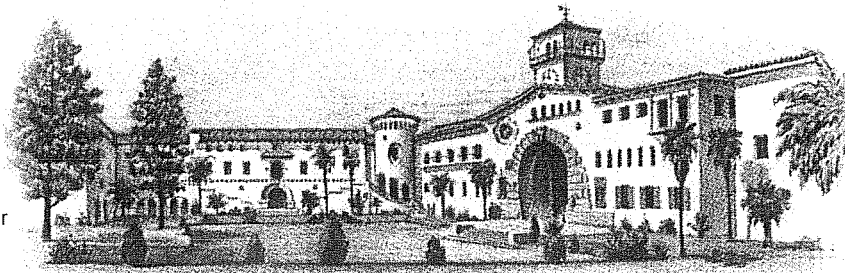
A handwritten signature in cursive script that reads "Heather Fletcher".

Heather Fletcher, CPA  
Audit Manager  
Santa Barbara, California  
August 8, 2013

# County of Santa Barbara

Robert W. Geis, C.P.A.  
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## Office of the Auditor-Controller

### INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE SANTA BARBARA COUNTY TREASURER'S INVESTMENT POOL TREASURER'S OVERSIGHT COMMITTEE

To the Santa Barbara County Treasurer's Oversight Committee and the Honorable Board of Supervisors  
County of Santa Barbara, California

We have examined the Santa Barbara County Treasurer's compliance with the Treasury Oversight Committee provisions contained in §27130-27137 of the California Government Code for the fiscal year ended June 30, 2013. Treasury's management is responsible for the compliance with those requirements. Our responsibility is to express an opinion on the Santa Barbara County Treasurer's compliance based on our examination.

Our examination was made in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about Treasury management's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on compliance with specified requirements.

In our opinion, the Santa Barbara County Treasurer is in compliance, in all material respects, with the provisions contained in §27130-27137 of the Government Code for the fiscal year ending June 30, 2013.

Heather Fletcher, CPA  
Audit Manager  
Santa Barbara, California  
August 8, 2013